LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6422 | **DATE PREPARED:** Jan 16, 1999
BILL NUMBER: HB 1666 | **BILL AMENDED:**

SUBJECT: Elimination of property tax controls.

FISCAL ANALYST: Bob Sigalow
PHONE NUMBER: 232-9859

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: This bill eliminates property tax rate and levy controls. It also makes numerous changes related to the elimination of the property tax controls.

Effective Date: January 1, 2000; January 1, 2001; March 1, 2001.

Explanation of State Expenditures: The state's liability for property tax replacement credits (PTRC) would not be affected by this proposal. The bill bases the PTRC on the levy as if the maximum levy was in effect.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill removes all maximum levies and maximum tax rates for civil taxing units and school corporations. The gross property tax levy for 1998 was almost $5.2 billion. Under this proposal, that amount is subject to increase by an almost unlimited, unknown amount. Not all units would take advantage of the elimination of the caps. Some units might keep their levy increases within current limits. However, there could also be some units that would increase their levies beyond the current limits. Under the proposal, the county board of tax adjustment would review each taxing unit's budget, tax rate, and tax levy. The board would be able to revise or reduce, but not increase, the budget, tax rate, or levy.

Under current law, a distressed township is defined as a township that:
1. Cannot pay 30 day old poor relief claims;
2. Has poor relief expenditures that exceed poor relief revenues;
3. Has dedicated at least 90% of its maximum levy to poor relief; and
4. Has outstanding indebtedness that exceeds 1.8% of the township's assessed value.

Under this proposal, since the maximum levies are being eliminated, the requirement that a township use 90% of its maximum levy for poor relief before it is deemed a distressed township would also be eliminated. This provision could trigger the distressed township laws in a township that meets the other three qualifications.

This proposal would also affect the manner in which the “M” distribution from the Pension Relief Fund (PRF) is calculated.

Statewide, there should be no net fiscal impact from this provision. The PRF has a predetermined level of contributions that come in annually from cigarette tax, alcohol tax, and lottery revenues. Distributions from the “M” portion of the PRF, as determined by the “M” formula, will eventually exhaust this fund. If more money is paid out earlier, then less money will be paid out in later years and vice versa. Therefore, statewide, there is no fiscal impact.

This legislation, however, could cause individual cities and towns to experience fiscal impacts. Changing the distribution basis from maximum levy to levy could cause the “M” distribution to be very erratic depending on how individual cities and towns structure their property tax levy and debt, if any. If the actual property tax levy fluctuates within an individual city or town, then its “M” distribution would also fluctuate. Furthermore, since the net statewide effect is neutral, if some cities receive more in “M” distributions, then other cities will receive less in “M” distributions. This provision could also make some currently eligible cities ineligible for “M” distributions.

The actual fiscal impact of this bill would depend on the actions taken by each of Indiana’s approximately 2,776 taxing units.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: All civil taxing units and school corporations.

Information Sources: Doug Todd, McCready and Keene, Inc. (576-1508); Local Government Database.